

**REPORT OF THE AUDIT OF THE
BOYLE COUNTY
SHERIFF'S SETTLEMENT - 2011 TAXES**

**For The Period
April 16, 2011 Through April 16, 2012**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
BOYLE COUNTY
SHERIFF'S SETTLEMENT - 2011 TAXES

For The Period
April 16, 2011 Through April 16, 2012

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2011 Taxes for the Boyle County Sheriff for the period April 16, 2011 through April 16, 2012. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$14,412,291 for the districts for 2011 taxes, retaining commissions of \$489,133 to operate the Sheriff's office. The Sheriff distributed taxes of \$13,898,935 to the districts for 2011 taxes. Taxes of \$18,616 are due to the districts from the Sheriff and refunds of \$186 are due to the Sheriff from the taxing districts.

Report Comments:

2011-01	The Sheriff Had Uncollected And Undocumented Receipts In The Tax Account
2011-02	The Sheriff Should Accurately Account For All Franchise Tax Collections And Distribute All Franchise Taxes By The Tenth Of Month Following Collections
2011-03	The Sheriff Should Improve Controls Over Tax Accounting Functions
2011-04	The Sheriff Should Remit Refunds For Overpayments To Taxpayers
2011-05	The Sheriff Should Ensure Prior Year Tax Escrow Accounts Are Properly Maintained
2011-06	The Sheriff's 2011 Bank Account Does Not Have Sufficient Funds To Cover The Audited Fund Balance

Deposits:

The Sheriff's deposits as of November 30, 2011 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$6,996,311

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Harold McKinney, Boyle County Judge/Executive

Honorable Marty Elliott, Boyle County Sheriff

Members of the Boyle County Fiscal Court

Independent Auditor's Report

We have audited the Boyle County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012. This tax settlement is the responsibility of the Boyle County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Boyle County Sheriff's taxes charged, credited, and paid for the period April 16, 2011 through April 16, 2012, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated May 22, 2013 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Harold McKinney, Boyle County Judge/Executive

Honorable Marty Elliott, Boyle County Sheriff

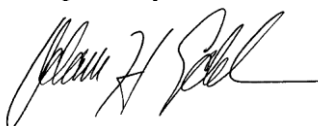
Members of the Boyle County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2011-01 The Sheriff Had Uncollected And Undocumented Receipts In The Tax Account
- 2011-02 The Sheriff Should Accurately Account For All Franchise Tax Collections And Distribute All Franchise Taxes By The Tenth Of Month Following Collections
- 2011-03 The Sheriff Should Improve Controls Over Tax Accounting Functions
- 2011-04 The Sheriff Should Remit Refunds For Overpayments To Taxpayers
- 2011-05 The Sheriff Should Ensure Prior Year Tax Escrow Accounts Are Properly Maintained
- 2011-06 The Sheriff's 2011 Bank Account Does Not Have Sufficient Funds To Cover The Audited Fund Balance

Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statement as a whole.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

May 22, 2013

BOYLE COUNTY
MARTY ELLIOTT, SHERIFF
SHERIFF'S SETTLEMENT - 2011 TAXES

For The Period April 16, 2011 Through April 16, 2012

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 885,631	\$ 3,817,708	\$ 5,185,406	\$ 1,895,561
Tangible Personal Property	119,677	711,331	399,244	886,489
Fire Protection	298			
Increases Through Exonerations	1,501	7,279	258	4,878
Franchise Taxes:				
Current Year	29,269	127,076	134,490	
Prior Year	53,109	277,236	258,130	
Unbilled	52,189	236,860	280,677	
Additional Billings	207	878	1,363	449
Oil Property Taxes	246	986	2,534	528
Limestone, Sand and Mineral Reserves	132	620	1,806	283
Penalties	3,979	16,672	23,133	9,225
Adjusted to Sheriff's Receipt	(118)	(265)		(288)
Gross Chargeable to Sheriff	<u>1,146,120</u>	<u>5,196,381</u>	<u>6,287,041</u>	<u>2,797,125</u>
<u>Credits</u>				
Exonerations	3,574	13,771	7,094	12,354
Discounts	16,552	75,427	93,185	46,283
Delinquents:				
Real Estate	13,391	57,184	58,504	28,644
Tangible Personal Property	470	1,988	526	2,260
Franchise Taxes:				
Current Year - Delinquent & Uncollected	1,653	7,379	4,155	
Prior Year - Delinquent & Uncollected	18	82	156	
Current & Prior Years - Unbilled	<u>52,189</u>	<u>236,860</u>	<u>280,677</u>	
Total Credits	<u>87,847</u>	<u>392,691</u>	<u>444,297</u>	<u>89,541</u>
Taxes Collected	\$ 1,058,273	\$ 4,803,690	\$ 5,842,744	\$ 2,707,584
Less: Commissions *	<u>44,977</u>	<u>153,802</u>	<u>175,282</u>	<u>115,072</u>
Taxes Due	1,013,296	4,649,888	5,667,462	2,592,512
Taxes Paid	1,011,412	4,642,494	5,653,318	2,591,711
Refunds (Current and Prior Year)	<u>444</u>	<u>1,860</u>	<u>2,502</u>	<u>987</u>
Due Districts or (Refund Due Sheriff) as of Completion of Audit	<u>\$ 1,440</u>	<u>\$ 5,534</u>	<u>\$ 11,642</u>	<u>\$ (186)</u>

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

BOYLE COUNTY
MARTY ELLIOTT, SHERIFF
SHERIFF'S SETTLEMENT - 2011 TAXES
For The Period April 16, 2011 Through April 16, 2012
(Continued)

* Commissions:

4.25% on	\$	6,408,751
3% on	\$	5,842,743
2.25% on	\$	1,589,684
1% on	\$	571,112

** Special Taxing Districts:

Library District	\$	1,865
Health District		478
Extension District		1,530
City of Danville		123
Fire Protection District		1,538

Due Districts	\$	<u>5,534</u>
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BOYLE COUNTY
NOTES TO FINANCIAL STATEMENT

April 16, 2012

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Boyle County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BOYLE COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 16, 2012
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 16, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 30, 2011, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$6,996,311

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2011. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2012. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 24, 2011 through April 16, 2012.

Note 4. Interest Income

The Boyle County Sheriff earned \$4,767 as interest income on 2011 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Boyle County Sheriff collected \$33,140 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff is to deposit unrefundable duplicate payments and unexplained receipts in interest-bearing accounts. The Sheriff's escrowed amounts were as follows:

2008	\$6,489
2010	\$1,330
2011	\$5,129

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110. The Sheriff sent a written report to the Treasury Department and submitted \$1,132 to the Kentucky State Treasurer in accordance with KRS 393.110. The Sheriff should submit an additional \$5,357 to the Kentucky State Treasurer for 2008 in accordance with KRS 393.110.

BOYLE COUNTY
MARTY ELLIOTT, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

For The Period April 16, 2011 Through April 16, 2012

Assets

Cash in Bank (All Tax Accounts)		\$	195,100
Deposits in Transit			63,375
Receivables:			22,592
Uncollected Receivables:			
Due From District Per Settlement:			
State	\$	186	
Due from 2012 Tax Account		11,983	
Due from 2010 Tax Account		3,791	
Undeposited Receipts		4,880	20,840
			<hr/>
Total Assets			301,907

Liabilities

Paid Obligations-			
Outstanding Checks		108,086	
Liabilities		172,198	
			<hr/>
Total Paid Obligations			280,284
Unpaid Obligations-			
Due to Districts Per Settlement:			
County		1,440	
Boyle Co. Board of Education		11,642	
Library		1,865	
Health		478	
Extension Service		1,530	
City of Danville		123	
Fire Protection		1,538	18,616
			<hr/>

BOYLE COUNTY
MARTY ELLIOTT, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS
For The Period April 16, 2011 Through April 16, 2012
(Continued)

Liabilities (Continued)

Unpaid Obligations- (Continued)

Refunds Due Taxpayers for Overpayments	\$	12,507
Due to 2011 Fee Account		700
Due to 2012 Fee Account		200
Telecommunications Tax Due to Fee Account		<u>184</u>
Total Unpaid Obligations		<u>32,207</u>
Total Liabilities		<u>312,491</u>
Total Fund Deficit as of April 16, 2012	\$	<u><u>(10,584) *</u></u>

* There are not sufficient funds in the bank account to cover this deficit.

Reconciliation of Fund Balance to Bank Balance:

Current Bank Account Balance:	\$	1,079
Receivables that can be collected:		
State (Per Settlement)	\$	186
From 2012 (Franchise)		<u>11,983</u>
		12,169
Total Unpaid Obligations Per Audit:		<u>32,207</u>
Adjusted Bank Balance:	\$	<u><u>(18,959)</u></u>

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Harold McKinney, Boyle County Judge/Executive
Honorable Marty Elliott, Boyle County Sheriff
Members of the Boyle County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Boyle County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012, and have issued our report thereon dated May 22, 2013. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Boyle County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2011-01, 2011-02, 2011-03, 2011-04, 2011-05, and 2011-06 to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Boyle County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2011-01 and 2011-02.

The Boyle County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Boyle County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

May 22, 2013

COMMENTS AND RECOMMENDATIONS

BOYLE COUNTY
MARTY ELLIOTT, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2011 Through April 16, 2012

FINANCIAL STATEMENT FINDINGS:

2011-01 The Sheriff Had Uncollected And Undocumented Receipts In The Tax Account

During our review of 117 deposits into the tax account, auditors noted the following:

- 13 deposits were not made in a timely manner.
- 52 deposits had a discrepancy noted between the cash and check amounts recorded on the daily deposit report and the cash and check amounts noted on the bank deposit ticket.
- Of the 52 deposits with noted discrepancies, auditor selected 11 deposits to review the detailed makeup of the bank deposits. Five of the 11 deposits reviewed included checks that appear to be for civil summons payments, which should have been deposited to the fee account. The amount of civil summons payment checks located in those five tax deposits was \$400.
- On November 2, 2011, daily deposit reports indicated that cash of \$4,884 should have been deposited. No cash was included in the deposit. The total check amount on that day was over what was reported on the daily deposit report by \$1,005, leaving a net undeposited amount of \$3,867.
- On March 26, 2012, daily deposit reports show that a deposit of \$2,057, consisting of \$468 in cash and \$1,589 in checks, was due to be deposited. The deposit located for this day totaled \$1,044 and consisted of one tax payment, which was collected on March 26 and two civil summons payments totaling \$100, leaving a net undeposited amount of \$1,013.
- On March 9, 2012, a \$50 check for a civil summons fee was deposited with a tax deposit that had no cash involved. The deposit was \$50 over what the daily deposit report indicates should have been deposited. On March 14, cash was short from the deposit \$50. Both of these deposits posted to the bank account on March 14.
- On August 21, 2012, an undocumented cash deposit of \$2,665 was made to the tax account. According to staff, the cash was found in a cash box and deposited to the tax account with no documentation of the source of the funds.

Since there are undeposited receipts, the bank balance does not agree to the determined fund balance. If receipts are not recovered, this could result in the Sheriff having to deposit personal funds to cover any shortages.

Adequate segregation of duties over receipts did not exist, nor were compensating controls implemented to offset this. See comment 2011-03.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual require that deposits be made in-tact on a daily basis. Additionally, the practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. Additionally, there should be a daily deposit report or daily checkout sheet for each daily deposit to document what the funds were received for.

BOYLE COUNTY
MARTY ELLIOTT, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2011 Through April 16, 2012
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2011-01 The Sheriff Had Uncollected And Undocumented Receipts In The Tax Account (Continued)

We recommend the Sheriff immediately implement controls over the deposit process to ensure deposits are made daily and include all tax receipts accepted by the Sheriff's office for that day to comply with KRS 68.210. By making daily deposits, the risk that cash is misappropriated in the office or diverted for personal use is reduced. We will be referring this matter to the Kentucky State Police for investigation.

Sheriff's Response: On a daily basis, the sheriff now supervises the preparation of the tax receipts, deposits, initials each deposit, and in most instances, delivers the deposit to the bank himself. In the absence of the sheriff, the chief deputy or the sheriff's designee assumes and performs these functions.

2011-02 The Sheriff Should Accurately Account For All Franchise Tax Collections And Distribute All Franchise Taxes By The Tenth Of Month Following Collections

During the test of franchise tax bills, we noted that two franchise tax bills, one for \$2,246 and another for \$1,544, were collected and deposited on June 17, 2011 into the 2010 tax account instead of the 2011 tax account. The bills were disbursed in the July 2011 disbursement from the 2011 tax account. As a result, \$3,791 is due from the 2010 account to the 2011 account.

We also noted that a bill for \$15,369 was collected and deposited into the 2011 tax account on March 6, 2012. That bill was not disbursed in either March or April. According to staff, the intent was to transfer the bill to the 2012 account and disburse it with 2012 collections. However, in June 2012, the amount that was transferred was \$11,983, resulting in a shortage of \$3,386. We recommend that \$11,983 be paid back to the 2011 account from 2012 account for disposition according to the audited settlement.

As of the end of the audit, no funds were available in the 2010 account to reimburse the 2011 account. This could lead to the Sheriff having to deposit personal funds to make up the difference.

Adequate segregation of duties over receipts did not exist, nor were compensating controls implemented to offset this. See comment 2011-03.

The Sheriff is required by KRS 134.191 to report and pay to the taxing districts by the tenth of each month all taxes collected during the preceding month.

We recommended the Sheriff immediately implement controls over the tax collection process in his office to ensure tax collections are properly accounted for by depositing them into the correct tax year's account. We also recommend the Sheriff report and pay to the taxing districts by the tenth of the month, all taxes, including franchise taxes, collected during the preceding month. We are referring this matter to the Kentucky State Police for investigation.

Sheriff's Response: Franchise tax bills are now entered, marked, and disbursed through the tax accounting software (GUTS). Further all tax collections including franchise taxes are being disbursed to the respective taxing entities.

BOYLE COUNTY
MARTY ELLIOTT, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2011 Through April 16, 2012
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2011-03 The Sheriff Should Improve Controls Over Tax Accounting Functions

During a review of internal controls over the tax accounting functions, inadequate segregation of duties was found to exist. We noted the Sheriff's former tax administrator collected tax payments, prepared deposits, and reconciled daily receipt reports to collections. The former tax administrator also prepared monthly reports, prepared payments (which were signed by either the Sheriff or Chief Deputy), maintained receipts and disbursement ledgers, and reconciled bank statements.

We found that deposit tickets had initials of the official written on them, as if to indicate the deposit had been verified. However, we were told that those initials were not made by the official.

Lack of segregation of duties or oversight by the official could result in misappropriation of assets and/or inaccurate financial reporting to external agencies such as taxing districts that could go undetected.

As a result of there not being segregated duties or oversight, the following occurred:

- Deposits were not made timely.
- Deposits did not agree to daily receipt reports.
- Tax receipts were not deposited.
- Receipts due to the fee account were deposited to the tax account.
- Cash receipts were made to the tax account that went undocumented.
- Audited prior years due to be held in escrow were not properly maintained.

Segregation of duties, such as opening mail, collecting cash, preparing bank deposits, writing checks, maintaining ledgers, reconciling bank statements, and preparing monthly reports, or the implementation of compensating controls, when number of staff limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties involving the collection of funds, preparation of bank deposits, maintenance of ledgers, preparation of monthly reports, and reconciliation of the bank statement. If, due to limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of these functions. The Sheriff could provide this oversight. If the Sheriff does implement compensating controls, these should be documented on the appropriate source document.

The following are examples of controls the Sheriff could implement:

- The Sheriff could recount and deposit cash receipts. This could be documented by initialing the daily deposit report and deposit ticket.
- All checks could have two (2) signatures, with one being the Sheriff.
- The Sheriff could compare monthly reports to disbursements being made. This could be documented by initialing the report.
- The Sheriff could review the bank reconciliation comparing it to the ledger balance. This could be documented by initialing the reconciliation.

BOYLE COUNTY
MARTY ELLIOTT, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2011 Through April 16, 2012
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2011-03 The Sheriff Should Improve Controls Over Tax Accounting Functions (Continued)

Sheriff's Response: Each of the above recommendations have been implemented as of October 3, 2012.

2011-04 The Sheriff Should Remit Refunds For Overpayments To Taxpayers

During the 2011 tax audit, multiple occurrences of taxpayers paying the Sheriff's Office for property taxes in amounts exceeding the tax bill were found. When these situations arise, the Sheriff's office should provide refund checks in the amount of the overpayment to the taxpayer or paying party. It was found that in 2011, this was not being done and that refunds totaling \$12,507 are due to multiple taxpayers.

Based on this knowledge, auditors reviewed 2010 tax files for similar situations. After review, the similar situation of taxpayers overpaying without being refunded was found. Auditors found in 2010 that refunds totaling \$20,328 are due to multiple taxpayers.

We recommend that all refunds be paid to taxpayers as determined. Any differences in account balances and amounts due to taxpayers could result in the Sheriff having to deposit personal funds to cover the shortage. We are referring this matter to the Kentucky State Police.

Sheriff's Response: Currently all refunds are being paid immediately. This was implemented at the start of the 2012 tax year.

2011-05 The Sheriff Should Ensure Prior Year Tax Escrow Accounts Are Properly Maintained

During our audit, we found that prior year accounts had not been properly maintained. Auditors found that receipts and disbursements needed to finalize prior year accounts were not made by the Sheriff's office. Further, auditors found that amounts due to be escrowed were not available. Activity indicates payments being made to and from open accounts.

Refunds were found written to taxpayers from prior year accounts. When a refund is issued to a taxpayer, it should be paid out of the current tax year. Each district is given a credit for the amount refunded to taxpayers on the monthly report.

The chart below details payments due to and from each account. The top sections are payments needed between these accounts. The lower sections are receivables due from and liabilities due to taxing districts and others.

BOYLE COUNTY
MARTY ELLIOTT, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2011 Through April 16, 2012
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2011-05 The Sheriff Should Ensure Prior Year Tax Escrow Accounts Are Properly Maintained
(Continued)

	2008	2009	2010	Total:
Current Account Balances	\$	\$	\$ 1,260	\$ 1,260
Internal Receivables/Liabilities:				
5 Refunds/Overpayments Paid From Wrong Tax Year	5,246	(5,246)		
Reimbursement From District for Overpayment from 2008	1,891	(1,891)		
Due to 2010 Tax Account per 2009 audit		(2,047)	2,047	
Due to 2011 Tax Account for Franchise Deposits			(3,791)	(3,791)
Internal Receivables/Liabilities Total:	7,137	(9,184)	(1,744)	(3,791)
External Receivables Due:				
Kentucky State Treasurer		2,047		2,047
Due from District Per Audit:	574			574
NSF Checks Not Redeposited	3,542			3,542
Service Charges			72	72
NSF Charges Not Redeposited			14	14
External Receivables Total:	4,116	2,047	86	6,249
External Liabilities Due:				
Outstanding Checks	5,853	4,315		10,168
Outstanding Liabilities		2,363		2,363
Due to Seizure Account		2,090		2,090
Unpaid Districts:	3			3
Unpaid Districts:	81			81
Unpaid Districts:		216		216
External Liabilities Total:	5,937	8,984		14,921
Account Balances After All Adjustments:	5,316	(16,121)	(398)	(11,203)
Amounts Already Paid To Kentucky State Treasurer	1,132			1,132
Escrow Amounts Per Prior Year Audits:	6,489		1,330	7,819
Difference Between Cash Balance and Audited Balance	(41)	(16,121)	(1,728)	(17,890)
2010 Refunds Due To Taxpayers <See Z-01A Comment 1>			20,328	20,328
Difference Between Cash Balance and Audited Balance (Including Additional)	\$ (41)	\$ (16,121)	\$ (22,056)	\$ (38,218)

Note: Tax accounts for 2008 and 2009 are closed.

BOYLE COUNTY
MARTY ELLIOTT, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2011 Through April 16, 2012
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2011-05 The Sheriff Should Ensure Prior Year Tax Escrow Accounts Are Properly Maintained
(Continued)

Based upon the follow up work performed on prior year tax accounts, from 2008-2010 a difference of \$17,890 was noted between what the audited escrow balances were determined to be in those tax years and what the ledger balances of those accounts are after all necessary adjustments are made.

We recommend that all receivables be collected and liabilities be paid as determined. We further recommend that the audited amount of escrowed funds be held for the prescribed time of three years, then be remitted to the Kentucky State Treasurer. Any differences in account balances and the audited escrow amounts could result in the Sheriff having to deposit personal funds to cover the shortage. We are referring this matter to the Kentucky State Police for investigation.

Sheriff's Response: The sheriff certifies that he will comply with the above recommendations.

2011-06 The Sheriff's 2011 Bank Account Does Not Have Sufficient Funds To Cover The Audited Fund Balance

Upon completion of the audit, the fund balance was determined to be \$1,079 after all receivables are collected and liabilities are paid. However, there are receivables from the 2010 tax account and undeposited receipts that do not appear to be available for collection at the time of the audit. As a result, the cash balance in the bank account is \$18,959 less than the audited fund balance.

If all collections cannot be made, the Sheriff may have to make up the difference with personal funds. We recommend that receivables be collected and liabilities be paid as determined by audit.

Sheriff's Response: The sheriff certifies that he will comply with the above recommendations.

